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C O N F I D E N T I A L SECTION 01 OF 04 MOSCOW 002179

SIPDIS

E.O. 12958: DECL: 08/24/2019

TAGS: [PGOV](#) [PREL](#) [PHUM](#) [PINR](#) [ECON](#) [ETRD](#) [KDEM](#) [SENV](#) [SOCI](#)
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SUBJECT: IRKUTSK: TOUGH TIMES FOR WORKERS AND IMMIGRANTS,
BUSINESS AND OPPOSITION

REF: MOSCOW 1562

Classified By: Acting Political Minister Counselor David Kostelancik.
Reason: 1.4 (b), (d).

¶1. (C) Summary: In Siberia's Irkutsk Oblast, businesses and their owners/managers, in particular prominent oligarchs such as Oleg Deripaska, also constitute the region's political elite, and everyone is scrambling dealing with the crisis. The Russian economic downturn may influence how and who new Irkutsk governor Dmitriy Mezentsev picks for his cabinet, and also lead to increased support for the Communists in the upcoming October 11 elections. While the central government has managed to mitigate consequences of the crisis in large cities, though opportunity for Chinese immigrants has constricted, the impact is felt most severely in small "monogorods" such as Baikalsk, in which Prime Minister Putin staged a dramatic appearance to address social unrest at an ailing paper pulp factory. End Summary.

¶2. (C) On a July 29-31 trip to Irkutsk Oblast, over 5,000 kilometers from Moscow, we discussed with a wide range of contacts the impact of the economic crisis on the decisions and actions of the new governor, Dmitriy Mezentsev, and the upcoming October 11 elections, as well as Putin's well-publicized visit to the region. We found a region, like others, coping with the political and social tensions that accompany a shrinking economic pie, by turning to Moscow for attention and money.

Siberia in Crisis

¶3. (C) Like many other places in Russia, the Irkutsk Oblast is experiencing the adverse affects of the current economic crisis. Sergey Levchenko, local Communist Party leader (KPRF) and State Duma Deputy who sits on the Energy Committee, told us July 30 that Irkutsk is in an economic crisis and that the situation has deteriorated significantly in the past six months. According to Levchenko, unemployment in the Irkutsk region stands at ten percent. Oleg Voronin, regional expert at the Carnegie Moscow Center, told us July 22 that there are 28,000 unemployed workers (among a population of approximately 2.5 million in the Irkutsk Oblast). Aleksey Petrov, a lecturer on politics at Irkutsk State University, told us July 30 that unemployment is not quite that severe in the city of Irkutsk, but in many cities in the Irkutsk Oblast some employers are cutting work schedules to only three or four hours a day. Carnegie's Voronin argued that the situation would likely worsen in the fall since he "did not see any signs of change." Levchenko hoped that the price of oil would increase, increasing revenues to the reserve fund and thereby allowing the government to continue paying pensions (which he noted were not in arrears - yet).

¶4. (C) During the past 5-10 years, small towns in Siberia lost jobs as industries transitioned from state to private ownership. Only recently, however, have locals become particularly concerned about economic problems. Levchenko told us that the construction industry was especially hard hit since residents rarely buy houses and few people relocate to Irkutsk. In fact, he stated that at the present time the cost of building a new home is the same as buying an existing home. For this reason, many of the construction companies have gone bankrupt as people opt for existing homes. Levchenko also highlighted residents' worries about inflation, pensions, and the growing cost of medication.

¶5. (C) Unemployment and banking credits are also major issues in the Irkutsk Oblast. Although the timber industry is one of the biggest businesses in Irkutsk, companies used to provide jobs by processing the wood in Russia. They now export raw timber to China where it is processed at a lower cost. According to Petrov, most of the region's largest companies are surviving the crisis on "government life support" in the form of federal budget contracts. One example is the Irkutsk Aviation Factory that employs 11,000 workers. Petrov complained that financial problems in Irkutsk are being compounded by regional banks that refusing to extend credit to SME.

A Chinese Exodus

¶6. (C) Another sign of the economic crisis in Irkutsk was the exodus of the local Chinese immigrant population. Levchenko told us that illegal workers, predominantly from

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China and Central Asia, have left Irkutsk since the crisis. Many Chinese had been involved in construction and were reportedly paid under the table, and left when the industry started suffering. Chinese workers also had seasonal jobs in agriculture, and the crisis also has had a negative impact on their employment prospects. Levchenko told us many illegal workers lived near the center of Irkutsk City, since prospects of making money there were greater than elsewhere. Oksana Krivoshchyokova from the "Angara" Baikal Regional Union of Women told us July 31 that there are very few services for immigrants in Irkutsk and that, in addition to the issue of unemployment, the Chinese struggle with obtaining health care enrolling their children in schools, and surviving without Russian language skills.

¶7. (C) According to Levchenko, it was common practice for Chinese nationals to overstay their visas or marry poor Russian women to obtain documentation to stay. Remittances from Chinese workers in Irkutsk are critical; some workers have been living in Russia and going back and forth to China for many years, but have also established their own support networks in Irkutsk, including imports from China, products appreciated even by locals for their low cost and the competition they provide to locally-produced goods. The "Little Shanghai" Chinese neighborhood in Irkutsk city had endless corrugated metal stalls locked up with small houses and large storage facilities peering out from behind them.

Baikal: Putin to the Rescue

¶8. (C) With the economic situation deteriorating, conditions in the "monogorod" of Baikalsk, on the shore of Lake Baikal, drew the attention of Prime Minister Vladimir Putin. Baikalsk owes its existence to the Baikalsk Pulp and Paper Mill, which remains the town's main employer and source of livelihood. The plant has frequently been a target for environmental activists who have protested its discharge of chlorine and other toxic chemicals into the lake. Pollution in Lake Baikal, the world's largest freshwater lake, is of particular concern because of its more than 1,700 species of plants and animals, two thirds of which can be found nowhere

else in the world. In 2008, the plant instituted a closed-cycle production system designed to prevent most toxic discharge. However, the plant closed in October when it became clear that the new system had impaired production quality and profitability. The plant's closing resulted in the layoff of 1,800 of the plant's 2,300 employees, leaving Baikalsk's 17,000 residents struggling. In June 2009, 42 workers started a hunger strike to obtain unpaid wages totaling USD two million. According to a poll by the Public Opinion Foundation, published in the July 24 edition of Vedomosti, 60 percent of city dwellers and 70 percent of plant employees in Baikalsk were prepared to take part in street protests.

¶9. (C) Petrov argued that the situation in Baikalsk was similar to that in Pikalevo in early June (reftel), leading to Prime Minister Putin being heralded as a hero upon arrival there August 1. On July 31, Solidarity's Mikhail Zimin agreed that the situation in Baikalsk was like that in Pikalevo, especially since Oleg Deripaska owns 51 percent of the company through his investment vehicle Basic Element and the federal government owns the other 49 percent, compelling Putin to answer to the unemployed workers. On August 2, Putin took a four and a half hour trip to the bottom of Lake Baikal in a MIR submarine. According to press reports, when he emerged from the deep, he told reporters that "there is practically no environmental damage in Lake Baikal from the paper mill in Baikalsk." Putin added that "he does not exclude" the possibility of reopening the mill if the local authorities and the mill's owners develop a realistic plan to resolve the plant's operational issues while protecting the environment and providing for sustainable local employment. The subsidized "re-opening" of the plant would not address the underlying economic inefficiencies of the town, although it may relieve immediate tensions.

New Kremlin-backed Governor to Assign Cabinet Seats

¶10. (C) On May 10, a political void emerged when former Irkutsk Governor Igor Yesipovsky died in a helicopter crash, along with his first deputy, bodyguard, and the pilot. The new governor, Dmitriy Mezentsev, an independent from St. Petersburg and who previously served in the Federation Council as an Irkutsk Representative, took office as governor August 10 and will name his ministers and team soon.

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Verkhozin commented that even though the previous governor, who was "controlled" by oligarchs, was not particularly effective, he doubted the new governor's team would change much since Mezentsev is Kremlin-backed. He added that, despite the crisis, Mezentsev would only implement mild policy changes. Verkhozin agreed that the new governor, a populist, is close to the Kremlin and is important to the region. He maintained that there is "little intrigue" with regard to the governor's new cabinet "since the political situation involves only one party." Petrov claimed that so far people are amenable to Mezentsev and he seems to have cordial relations with the mayor of Irkutsk. He pointed out that Mezentsev, formerly a journalist, was experienced in public relations, and pays close attention to journalists in Irkutsk where the media is freer than in other regions.

Crisis as a Backdrop for Elections

¶11. (C) The crisis will be the backdrop to local elections that will take place in 21 cities in the Irkutsk Oblast on October 11. Journalist and deputy editor at Baykalskiye Vesti Yuriy Pronin admitted July 31 that the economic crisis could have an impact, albeit minor. Levchenko told us that twenty percent of the population in Irkutsk Oblast lives in poverty, and thirty percent of the population is made up of the unemployed and pensioners. Independent journalist Aleksandr Verkhozin, who used to write for the daily

Kommersant, revealed to us on July 31 that "these are difficult times in Siberia." He explained that since all important political decisions are made on the federal level, it is not important for leaders to have the support of the people. Therefore, residents do not believe that the elections work or feel that they need to vote. The voter turnout is usually only around 30 percent. Solidarity's Zimin complained that there is strong power vertical in Irkutsk, but that the people at the bottom do not receive the real signal from the top.

Communists Capitalize on the Crisis

¶12. (C) According to Petrov, KPRF has a good chance of gaining seats since, as a rule, United Russia usually garners 15 percent fewer votes in Irkutsk Oblast than in the rest of Russia. During the last round of Irkutsk City Duma elections, no KPRF candidates won seats, though KPRF supported five independent candidates who won. Levchenko thinks KPRF has a good chance of winning seats in October, especially since people are dissatisfied during the crisis. He believed that KPRF is gaining strength in the region (he claimed it has 3500 members at present) and that the crisis is allowing KPRF to draw votes since people are hopeful that KPRF will be able to solve issues that United Russia officials cannot handle.

¶13. (C) The Irkutsk City Duma consists of 35 deputies elected from individual districts. Petrov though businessmen would get fewer seats since, by and large, their base is the construction industry and they will have less to spend during tough economic times on their own campaigns. In his view, candidates have a better chance of winning if they do not state their affiliation with United Russia, though they will likely join United Russia after the elections as a means of security for their businesses. He thought that 20-23 United Russia candidates would gain seats and that as few as two seats would go to opposition parties, most likely the new business-oriented Right Cause. Petrov explained that the key campaign issues would be roads, construction and intolerable levels of official corruption.

Prospects for Other Opposition Groups

¶14. (C) Our interlocutors told us the Liberal Democratic Party (LDPR) has a chance of some winning seats. Nina Chekotova, the head of LDPR in the Irkutsk Oblast, is a young woman who has a seat in the Irkutsk Regional parliament. The Baikal Media Group's Lyustritskiy also said that Chekotova has a lot of influence since she is wealthy and businessmen admire her. After her husband's murder six years ago, she began to build her local power base. According to Lyustritskiy, with her support, LDPR has a better chance in Irkutsk than in other regions of Russia. There is no real opposition in Irkutsk and LDPR and Just Russia work closely with United Russia, according to Levchenko, who argued that Yabloko, Right Cause and Solidarity "are nothing in Irkutsk."

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¶15. (C) Solidarity has stated that it will participate in the Irkutsk City Duma elections. On July 31 Solidarity Opposition leader Ildus Galytdinov told us that he is running in the elections on a platform including opposition to bad roads and poor communication, the city's budget deficit, and corruption. Even though Solidarity only has 150 members in the Irkutsk Oblast, Galytdinov expressed confidence that he has a chance to draw votes from members of other parties. While Galytdinov seemed serious about his candidacy, Solidarity's Zimin admitted that "the elections are rigged of course and it will be a big show."

Economic Resources Driving Mayoral Elections

¶16. (C) The October elections in Irkutsk Oblast will also include the Bratsk City Duma and the Ustilinsky City Duma, both of which are large cities with significant economic resources. A major paper mill is in Ustilinsky. According to Baykalskiye Vesti's Pronin, the mayor of Bratsk is very influential and enjoys strong support from both United Russia and the Bratsk Aluminum company. Pronin told us that the Mayor in Ustilinsky, a local oligarch who has been in power since 1997 and is on his third term, is so powerful that he maintained his position despite allegedly organizing the murder of his political rival.

Comment

¶17. (C) Irkutsk Oblast elections constitute an important test for the resilience of United Russia and the Kremlin given the region's difficult economic situation. While United Russia relies on businesses in Irkutsk Oblast for its power base, the opposition parties, appeal to blue collar and lower income residents, aiming to discredit the party by pointing out corruption and suffering during the crisis. Though physically distant from Moscow, the untapped development potential and great natural resource deposits of the region translate into high stakes for those vying for power, underlined by the attention devoted to the area by Putin before, and after, the recent Siberian dam tragedy.
Beyrle